Testimony of
Maurice Emsellem
National Employment Law Project

Hearing Before the
U.S. House of Representatives,
Ways & Means Committee,
Subcommittee on Income Security & Family Support

April 23, 2009

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Chairman McDermott and members of the Committee, thank you for this opportunity to testify on key features of the federal response to the nation's economic crisis, specifically the unemployment insurance provisions of the American Recovery and Reinvestment Act of 2009 (P.L. 111-5).

My name is Maurice Emsellem, and I am the Policy Co-Director for the National Employment Law Project (NELP), a non-profit research and advocacy organization that specializes in economic security programs, including unemployment insurance (UI), Trade Adjustment Assistance (TAA) and the workforce development system. We have a long history serving families hardest hit by economic downturns by helping them access their benefits and promoting innovative state and federal policies that deliver on the nation's promise of economic opportunity.

Since the ARRA was enacted on February 17th, we have actively educated state officials and supported initiatives in over 40 states to modernize their unemployment insurance programs with the help of the $7 billion in federal incentive funding. In our testimony, we detail the remarkable reforms made possible in just the last two months as a result of the ARRA. Already, 12 states have enacted legislation that will qualify for incentive funds and we expect at least twenty more to do so in the coming months as their legislative sessions wind down.

While helping thousands of workers collect benefits who have been unfairly left out of the unemployment system, the ARRA has also provided state unemployment trust funds with a significant infusion of cash when they need the help most. As a result, employers have also benefited significantly because the infusion of funds prevented scheduled tax increases from triggering. While a handful of Governors continue to oppose accepting the federal unemployment incentive funds, the compelling facts on the ground have convinced those who have taken a serious look at their options to adopt the modernization reforms.

With long-term unemployment exceeding record recession levels, workers and the state trust funds are now benefiting from the ARRA's provision to fully fund an additional 13 to 20 weeks of Extended Benefits (EB), the program which is normally funded 50 percent by the states. In states with high unemployment, EB is available to those who run out of their 20 to 33 weeks of the Emergency Unemployment Compensation (EUC), the temporary federal extension created in July 2008.

The EB program is now providing benefits to workers in over 20 states, helping more than two million workers this year to fill the hole left when their EUC benefits ended. However, over 300,000 workers will likely be left without any EB benefits despite the full federal funding provided by the ARRA unless certain states with especially high levels of unemployment act quickly to adopt a temporary change in state law that will allow the state to immediately qualify for EB.

Together with the $25 increase in weekly state and federal benefits, the suspension of the federal tax on unemployment benefits (up to $2,400) and the extension of EUC though December 2009, these ARRA provisions will generate a major boost to the economy. We estimate that the ARRA will produce over $140 billion in economic growth in 2009, which does not count the $53.5 billion in state unemployment benefits that will be pumped into the economy this year.

The historic challenges facing the national economy require especially bold and innovative policy responses. With the unemployment insurance provisions of the ARRA, driven by your leadership, Congressman McDermott, and President Obama's strong support, the nation has delivered on the President Roosevelt's vision for the unemployment insurance program by generating significant economic growth while helping those families hit hardest by unemployment. The reforms made possible by the ARRA reverse decades of neglect and put system back on track to meet the serious challenges of the 21st Century.

A. The Current Unemployment Crisis

The magnitude of the nation's current unemployment crisis cannot be overstated. Already, the unemployment rate has surged to 8.5 percent, and it is fast approaching the post-Depression record rate of 10.8 percent experienced during the devastating 1980s recession.

Meanwhile, unemployment claims have now surpassed record levels, with more than six million people collecting state benefits and another two million workers receiving the federal EUC extension. As the ranks of the unemployed continue to swell with monthly job losses exceeding 600,000, there are now nearly four jobless workers for every job opening in today's labor market.

These and other forces have also produced record rates of long-term joblessness, which has gripped workers and families of nearly all income and education backgrounds. <u>Indeed, last month, 45.6 percent of all workers collecting state unemployment insurance reached the end of their maximum 26 weeks of benefits. That is the highest exhaustion rate on record, dating back to 1972 when the data were first reported.</u>

Also in March, more than 3.2 million Americans were still officially counted as unemployed after actively looking for work for more than six months. The national rate of 24.2 percent long-term unemployment is the highest incidence <u>during</u> any period of recession since the records were first kept in 1948. The highest rate of long-term unemployment on record is 26 percent, which was the peak experienced eight months <u>after</u> the 1980s recession ended, in November 1982. Consistent with prior recessions, it is likely that today's record rates of long-term unemployment will continue to climb and surpass the 1980s post-recession record.

To help document the hardships of families resulting from the recession, NELP commissioned Peter D. Hart Research Associates to conduct a national poll of unemployed workers in November 2008. The results are disheartening, especially given that the poll took place as the extreme job losses of the past six months had just begun.[1] For example, more than two-thirds of those surveyed had cut back on food and groceries, while one in four had skipped meals altogether due to lack of income. More than one-third of all renters had to move in with family and friends, and half of all unemployed families were forced to borrow money to cover their basic expenses.

As the labor market worsens and workers find themselves jobless for record periods of time, families will suffer even more distressing levels of economic and personal hardship. In today's economy, unemployment benefits are often the only lifeline available for these workers to keep their families afloat and provide the hope and determination necessary to get back on their feet.

B. The Critical Role of the Unemployment Insurance Program

When President Franklin D. Roosevelt sent the Social Security Act to Congress for consideration in January 1935, his vision for the unemployment insurance program was clear and compelling. Unemployment insurance "should be constructed in such a way as to afford every practical aid and incentive toward the larger purpose of employment stabilization."[2]

The accompanying report of the Committee on Economic Security provided the details of a new program to serve as the "first line of defense" to immediately address the desperate needs of unemployed families and the struggling economy.[3] As the law moved toward final passage in August 1935, an ambitious new unemployment insurance program was established that was in part a creature of federal policy and part a creation of the states.

1. <u>Boosting the Nation's Economy</u>

While the economy has changed dramatically in the past 70 years, today's severe recession reminds us of the critical importance of President Roosevelt's "employment stabilization" mandate for the unemployment program. And his vision has clearly survived the test of time. Economists of all persuasions applaud the "counter-cyclical" nature of the program and its documented impact on economic growth.

In fact, a major study of several of the recent recessions found that unemployment benefits contribute $2.15 in economic growth for every dollar of benefits circulating in the economy.[4] According to our estimates, the ARRA will thus produce over $140 billion in economic growth through the end of the year, just when the economy needs the help most. Including the multiplier, the estimate accounts for the benefits provided by the EUC program ($44.7 billion),

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[1] Peter D. Hart Research Associates, "Unemployed in America: The Job Market, the Realities of Unemployment and the Impact of Unemployment Benefits, conducted November 14-18, 2008 (commissioned by the National Employment Law Project).

[2] Witte, *The Development of the Social Security Act* (University of Wisconsin Press: 1962), at page 128.

[3] Larson, Murray, "The Development of the Unemployment Insurance System in the United States," 8 Vand.L.Rev. 181, 186 (1955).

[4] Chimerine, et al. "Unemployment Insurance as an Economic Stabilizer: Evidence of Effectiveness Over Three Decades," U.S. Department of Labor, Unemployment Insurance Occasional Paper 9908 (1999).

the Extended Benefits program ($6.5 billion), the $25 increase in weekly benefits ($8.6 billion), the suspension of the federal income tax ($2.7 billion) and a projected $4 billion in federal incentive funds to be distributed this year. It does not include the $53.5 billion in state benefits expected to be distributed this year, which reflects an increase in benefits of about $20 billion compared to 2008.

2. Alleviating Economic Hardship

Even for families who have bought a home and earn middle-class wages, a layoff in today's economy will often result in extreme economic hardship, including incomes that fall below the poverty level. However, as the research has shown, unemployment benefits play a major role preventing workers from ending up in poverty.[5]

Before becoming unemployed, only 7 percent of unemployment recipients report family incomes below the official poverty level. When these workers become unemployed and collect all their state jobless benefits, one-third of the families find themselves destitute as measured by the official poverty guidelines. That figure increases significantly to one-half of all families who would end up in poverty without the help of unemployment benefits.

As measured by food consumption of the unemployed, which is the most basic indicator of family subsistence during tough times, there is no doubt that unemployment benefits help families prevent serious hardship. For example, NELP's 2008 national survey of the unemployed found that those workers collecting unemployment benefits were half as likely as those who did not receive benefits to be forced to skip meals to help them get by financially.[6]

3. Stabilizing Housing

Also of special significance to today's economic crisis, unemployment benefits contribute to stabilizing the housing market in those communities devastated by layoffs and foreclosures. In fact, 46 percent of foreclosures now result from workers who have lost their income due to layoffs, which is up significantly over prior years.[7]

Families of jobless workers spend more of their unemployment benefits to cover the costs of their mortgages and rent than for any other household expense. A major state study found that 41% of expenditures paid for with unemployment benefits were applied to housing costs.[8] Another national study found that the availability of unemployment benefits reduced the chances that a worker will be forced to sell the family home by almost one-half.[9]

[5] U.S. Congressional Budget Office, "Family Income of Unemployment Insurance Recipients" (March 2004), at page 13.
[6] "Unemployed in America," page 4..
[7] "Mounting Job Loses Fueling Foreclosures," CNNMoney.com (November 6, 2008).
[8] State of Washington, Employment Security Department, "Claimant Expenditure Survey, 2005" (January 2006).
[9] Gruber, "Unemployment Insurance, Consumption Smoothing, and Private Insurance: Evidence from the PSID and CEX," Advisory Council on Unemployment Compensation Background Papers, Vol. 1 (1995), at page 20.

4. Promoting Quality Jobs & Strong Labor Standards

Unemployment benefits also help maintain U.S. labor standards and promote economic opportunity. The unemployment system promotes productivity by allowing workers to match their skills to the best available job, which means they ultimately receive higher pay as well (by a factor of $240 a month for those who collect benefits, compared to those who do not).[10] With the help of unemployment benefits, which allow workers the extra time they need to seek out quality jobs, families are also far more likely to find work that provides employer-sponsored health insurance.[11]

C. The Unemployment Insurance Provisions of the American Recovery and Reinvestment Act of 2009 (ARRA)

As summarized below, the unemployment insurance provisions of the ARRA were historic in scope, responding boldly to the serious challenges facing the unemployment insurance system and those families hardest hit by the recession.

- **Federal Incentives to Modernize the State Unemployment Insurance Programs.** Responding to the outdated eligibility rules that disproportionately deny benefits to low-wage wage and women workers, the ARRA provides $7 billion in incentive funding to help states modernize their state unemployment programs. The ARRA also rewards state reforms that help the long-term unemployed to participate in training. All states also qualify for their share of $500 million in federal funds to improve state services and expand outreach to the unemployed.

- **Federally-Funded Extended Jobless Benefits**: Responding to the record rates of long-term unemployment, the ARRA continues the 20-33 week federal program of Emergency Unemployment Compensation (EUC) until December 2009 (with a phase-out through August 2010 for those who qualify in 2009). In addition, states have the option to change their laws to qualify for an additional 13 to 20 weeks of fully-federally- funded Extended Benefits (which is normally funded 50 percent by the states) through December 2009.

- **Boosting the Purchasing Power of Jobless Benefits.** Responding to the rising costs of food, gas and other basic goods and services and the relatively low level of benefits provided by the states, the ARRA also increased both federal and state benefits by $25 a week (ending December 2009) and suspended the federal requirement that workers pay federal income taxes on their jobless benefits, up to $2,400 per worker (for taxable year 2009).

- **Waiving Federal Interest on Loans Provided the States:** Responding to the growing number of states seeking federal loans to pay unemployment benefits (now totaling 14),

[10] National Employment Law Project, "Unemployment Insurance is Vital to Workers, Employers and the Struggling Economy" (Updated December 5, 2002), page 4.
[11] Heather Boushey, Jeffrey Wenger, "Finding The Better Fit: Receiving Unemployment Insurance Increases Likelihood of Re-Employment with Health Insurance" (Economic Policy Institute: April 15, 2005).

the ARRA also allowed the states to suspend the interest they would otherwise be required to pay on their federal loans through to December 2010.

1. Unemployment Insurance Modernization Incentive Funding Generates Major State Reforms Benefiting Workers, the State Trust Funds and Employers.

Since the ARRA was enacted only two months ago, and as a direct result of the $7 billion in federal incentive funding, almost half the states have made major strides toward modernizing their programs. Indeed, to the credit of state officials, the business and labor communities, nearly all states have put politics aside and made truly informed decisions to modernize their state unemployment programs, thus benefiting not just workers, but also the struggling state trust funds and employers when they need the help most.

a. The Basics of the Stimulus Incentive Funding

Thanks to your dedicated leadership, Chairman McDermott, and President Obama's strong support, the unemployment incentive funding provisions made their way into the ARRA, thus incorporating the Unemployment Insurance Modernization Act (H.R. 2233) which you sponsored, and the corresponding Senate legislation sponsored by Senator Kennedy and others (S.1871).

The UIMA targeted the fundamental problem of the outdated gaps in the unemployment insurance program documented for decades by several leading authorities, including the bi-partisan Advisory Council on Unemployment Compensation.[12] Indeed, the unemployment system is so severely compromised that only 37 percent of jobless workers collected state benefits last year. The federal legislation took the best of all the reforms that have been tested in the states to address these concerns and made federal funding available to address the most serious gaps in the unemployment program.

Of special significance, ARRA targets low-wage workers who are unfairly denied unemployment benefits not because they didn't work enough but simply because the antiquated eligibility rules fail to count their most recent earnings. Indeed, according to the U.S. Government Accountability Office, low-wage workers are twice as likely as higher wage workers to find themselves unemployed, but they are only one-third as likely to collect jobless benefits.[13]

Thus, to qualify for the first one-third of the ARRA's incentive funding, the states must adopt the "alternative base period," which allows workers to count their recent earnings when needed for them to qualify for unemployment benefits. This reform modernizes the system to take into account that the worker's wage history is readily available on computer, thus eliminating the lag time that was built into the system when all the information had to be collected by hand before the age of computers.

[12] Advisory Council on Unemployment Compensation, *Collected Findings and Recommendations: 1994-1996* (1996).
[13] Government Accountability Office, "Unemployment Insurance Receipt of Benefits Has Declined, With Continued Disparities for Low-Wage and Part-Time Workers" (GAO-07-1243T, 2007), page 8.

To qualify for the remaining two-thirds of the ARRA incentive funding, states are provided a menu of options that target the other major groups who fall through the cracks of the unemployment system, including part-time workers, women with families and the long-term unemployed. Specifically, to qualify for the additional ARRA incentive funds, a state must provide benefits to workers in at least two of the following four categories:

- Part-time workers who are denied benefits in many states because they are required to actively seek full-time employment;
- Individuals who leave work for compelling family reasons, specifically including domestic violence, caring for a sick family member or moving because a spouse has been relocated to another location;
- Workers with dependent family members who would qualify for up to $15 more in benefits a week, per dependent up to a total of $50, to help cover the added expenses associated with dependent care.
- Permanently laid-off workers who require access to training in order to get meaningful re-employment, with the help of an extra 26 weeks of extra unemployment benefits.

Based on a methodology developed by the U.S. Department of Labor, NELP estimates that over 500,000 workers would qualify for the unemployment benefits if all the states adopted the full complement of ARRA reforms. In addition, the funding provided by the ARRA will, on average, pay for about seven years of new state benefits, thus providing a substantial financial incentive to adopt the necessary reforms.[14]

Shortly after the ARRA was signed into law, the U.S. Department of Labor (DOL) issued a guidance providing critical details on the state provisions that qualify for federal incentive funding.[15] Based on the federal guidance, the states are now passing laws and negotiating changes in regulations and policies to submit their incentive funding applications for official DOL certification before the October 2011 deadline.[16]

Additional DOL guidance also clarified the ARRA's provision that precludes states from qualifying for incentive funding if their statutes explicitly sunset the required reform provisions. According to the guidance, "While states are free to change or repeal the provisions on which modernization payments were based subsequent to receipt of incentive payments, Congress and the Department rely on states' good faith in adopting the eligibility criteria, and the applications must attest to this good faith . . . ."[17]

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[14] National Employment Law Project, "Question & Answer, The Unemployment Insurance Modernization Act: Filing the Gaps in the Unemployment Safety Net While Stimulating the Economy" (Updated February 17, 2009), Table 4.
[15] Unemployment Insurance Program Letter 14-09 (February 26, 2009).
[16] As of this week, DOL has certified five states for the first third of the federal incentive funding (Connecticut, Illinois, Massachusetts, New Hampshire and West Virginia) and one state (New Jersey) for its full federal grant..
[17] Unemployment Insurance Program Letter 14-09, Change 1 (March 19, 2009), CH 1-1.

b. Analysis of State Incentive Funding Activity

The timing of the ARRA's enactment could not have been better choreographed for the states to implement the unemployment insurance provisions. Simultaneously with the ARRA's enactment in February, the downturn deepened and the state legislative sessions were just getting started, thus providing the appropriate forum to seriously analyze and debate the state options.

As a result of the legislative process, even in states where governors initially expressed reservations about the incentive funding (and in sometimes outright opposition), including Georgia and Nevada, a more deliberate debate of the options and the movement of their state legislatures helped turn the dissenting governors around. In the handful of other states where governors continue to hold out against the incentive funding, such as Alaska and Texas, some state legislatures have moved full steam ahead with legislation thus directly challenging the Governors' position.

- Major Movement in the States

As summarized in Table 1, 12 states have thus far enacted legislation that will likely qualify for incentive funding upon review by DOL. These leading states include Arkansas, California (effective April 2011), Connecticut, Georgia, Iowa, Maine, Minnesota, Nevada, New Jersey, Oregon, South Dakota and West Virginia). They are divided almost equally between states represented by both Republican and Democratic governors. In addition, this weekend, Alaska's legislature passed an unemployment incentive funding bill by a veto-proof margin, backed by the Chamber of Commerce.

Another seven states have legislation pending that has either passed one chamber of the legislature (Idaho, Kansas, New Hampshire, Texas), or has moved through necessary committees. Two states have set up commissions to evaluate proposals (Kentucky and Utah). Virginia's Assembly is the only legislative body to have voted down the unemployment incentive reform legislation, although the Governor supports the bill and may seek to pass the legislation in special session.

Nearly all the remaining states have either introduced legislation or are actively developing proposals, typically with state officials working along with the business and labor community. These include states such as Michigan, Tennessee and New York, where the governors strongly support the incentive reforms as well as many states that already qualify for at least one-third of their funding based on the "alternative base period."

- State Reform Options and State Fiscal Impact

With the exception of South Dakota and West Virginia, which adopted only the alternative base period, all the states that have enacted legislation will likely qualify for the full amount of federal incentive funding assuming they are approved for certification by DOL.

In total, the states that have acted will draw down almost $2 billion in federal incentive funding. Without enacting any additional changes in law, another 14 states (plus the District of Columbia) will qualify for about $1 billion more in incentive dollars based solely on existing alternative base period laws and other state laws that meet the requirements for federal stimulus funding.

Once certified by DOL, the federal incentive funds are deposited in a lump sum in the state's unemployment trust fund. This major infusion of federal funding allows the growing number of states that have depleted their state trust funds (expected to total about 20 by the end of the year and at least 30 by the end of next year) to reduce or delay federal borrowing to pay state benefits.

Several of the states that have already moved legislation only needed to enact the "alternative base period" to qualify for the full incentive funding (California, Nevada, Oregon). Others had to adopt broader reforms to qualify (Arkansas, Georgia, Iowa). And the remaining states had to make relatively minor adjustments to their existing laws to qualify for the federal incentive funds (Connecticut, Maine, Minnesota).

These diverse state scenarios are consistent with the situation elsewhere around the country where the unemployment stimulus proposals are being actively debated. Nearly all the states have indicated a preference to adopt the reforms necessary for them to receive the full amount of federal incentive funding, not just the first third made possible by adopting the alternative base period. However, some states will be required to adopt a broader set of the ARRA reforms necessary to qualify for federal incentive funding, while others that already had some reforms in place are only obligated to enact more limited measures.

As a result of these laws already enacted, 27 states have now adopted the alternative base period, an increase of six states. The new state legislation and developing state proposals have also consistently included the option to make benefits available to workers seeking part-time work. So far, the states have been evenly split between the option to provide 26 weeks of benefits to workers in training and the provisions allowing workers to leave work for compelling family reasons. Fewer states appear to be adopting the "dependent benefits" option to qualify for the federal incentive funds.

- <u>Employers' Taxes Reduced by Stimulus Funds</u>

Contrary to the arguments of some naysayers, the major infusion of federal incentive funding has significantly increased state trust fund balances just in time to preclude otherwise scheduled tax increases intended to replenish state reserves.

While every state sets its trust fund balance target differently, most increase or decrease their unemployment insurance tax rates based on the health of the state's unemployment fund reserves. When the reserves are low, employer contributions automatically increase or special tax assessments are triggered to replenish the fund to specific levels. When trust funds are in better shape, employer taxes will eventually drop back again, and the cycle continues throughout good economic times and bad.

Indeed, even a minor infusion of new funding to the state's trust fund can prevent a major increase in state unemployment taxes. That was the experience last recession when Congress and President Bush authorize the release $8 billion in "Reed Act" funds to all the states, with no conditions on the federal funding to also expand benefits. As the GAO found, these funds had the effect of cutting taxes or preventing scheduled tax increases in 30 states.[18] However, only a limited number of states took advantage of the funds to significantly expand benefits.

The ARRA, in contrast, conditions the federal funding on reforms adopted by the states. However, the law also provides sufficient funding all at once to pay for at least seven years of benefits in the average state, which then allows the state to build up the reserves necessary to also preclude, limit or delay tax increases. It is important to emphasize that when the new state benefits are no longer paid for by the federal funding, that does not mean that taxes on employers will increase. Typically, the benefits adopted as a result of the ARRA reforms are not costly enough to tip the scale that ends up triggering a higher tax rate for all employers.

By way of example, consider the how the federal incentive funding reduces the tax obligation of Florida, South Dakota and Texas. In Florida, taxes will increase when the trust fund drops below $2 billion this year, but the federal incentive funds will cut the projected tax increase by 20 percent. In South Dakota, taxes would have increased by $25 million when the trust fund falls below $11 million, but the federal incentive funding keeps the fund above the required level. In Texas, the state fund is projected to have a deficit of $750 million by September 2009, which will trigger a "replenishment tax." Taking into account the cost of the required reforms, the federal incentive funding will save employers $450 to $500 million in required tax increases.

State	**Federal Incentive Funding**	**Estimated Annual Cost of State Reforms**	**State Trust Fund Solvency Measures**	**Employer Tax Savings**
Florida	$444.3 million	$71.5 million	$2 billion trust fund balance triggers tax increase.	$104 million
South Dakota	$5.9 million	$1.1 million	$11 million trust fund balance triggers tax increase.	$25 million
Texas	$555.7 million	$81.1 million	Deficit of $750 million will trigger solvency tax to make up the difference.	$450 - $500 million

2. States Providing Extra 13-20 Weeks of ARRA-Funded Extended Benefits

[18] U.S. General Accountability Office, *Unemployment Insurance: States Use of the 2002 Reed Act Distribution* (GAO-03-496, March 2003), at page 35.

The ARRA continued the temporary program of Emergency Unemployment Compensation (EUC) through to December 2009, thus providing 20 to 33 weeks of federally-funded benefits to those workers who exhaust their state assistance. In addition, the ARRA provided full federal funding for the permanent program of Extended Benefits (EB). The EB program, which is normally paid for 50 percent by the states, provides an extra 13 to 20 weeks of assistance.

Given the record rates of long-term unemployment, an estimated 2.5 million workers will exhaust their EUC benefits in 2009 (Table 2) after searching for work without success for more than a year. However, with the help of the EB program, over 2 million workers may qualify this year for an additional 13 to 20 weeks of benefits just in time to fill the hole left by the exhaustion of their EUC benefits (Table 2). While most of these workers will collect EB automatically, over 500,000 workers will not unless certain states with especially high unemployment do not take up a federal option to liberalize their EB program.

The additional weeks of EB, paid for in full by the ARRA, are available to those states that "trigger on" the program. One of EB's major flaws is the qualifying threshold level of unemployment, which is based on a formula that is often difficult for many states to meet, even when the state is experiencing extremely high levels of unemployment. Rather than employ the regular unemployment rate published monthly by the Bureau of Labor Statistics, EB is based on a formula called the "insured unemployment rate" (IUR). The IUR measures the number of workers collecting state unemployment benefits as a percent of all those who are covered by the program. As a result of this formula, states that are more likely to pay regular benefits tend to qualify for EB, but those that pay fewer workers benefits routinely do not.

Currently, 22 states are eligible to receive EB because their IUR has reached the required 5-percent threshold due to the recent surge in state unemployment claims. That may sound like a reasonable number, but it is not when you consider that many of the states with the highest rates of unemployment in the country still do not qualify for EB under the IUR.[19]

Recognizing this serious limitation, Congress amended the program in the 1990s to allow states to also provide 13 weeks of EB when their regular unemployment rate (i.e., the "total unemployment rate (TUR)") exceeds 6.5 percent. When the TUR exceeds 8 percent, states can pay 20 weeks of EB. To take advantage of the option, states must normally change their state laws, although DOL recently authorized Kentucky to enact emergency regulations doing so. Under the ARRA, states are free to also sunset their laws to avoid having to pay EB benefits after December 2009 in the event that the federal-sharing provision is not reauthorized.

Since the ARRA was enacted, another seven states (plus the District of Columbia) have adopted the optional EB formula (California, Georgia, Kentucky, Maine, Michigan, Nevada, Ohio) together with the sunset provision. As a result, over 750,000 workers will collect additional weeks of EB (Table 2). Except for Maine, all the other states will be providing 20

[19] These states include Alabama (7.6 percent), Arizona (7 percent), Florida (8.6 percent), Georgia (8.4 percent), Kentucky (8.5 percent), Mississippi (8.5 percent), Missouri (7.8 percent), New York (7.1 percent), Ohio (8.6 percent), and Tennessee (8.4 percent).

weeks of EB benefits funded by the ARRA because their unemployment rate has reached the required 8-percent threshold.

That's the good news, all thanks to the ARRA's federal-sharing provision. The bad news is that many high unemployment states have still not taken up the EB option, even though the largest contingent of workers exhausting the EUC benefits are doing so in April. Several states are well positioned to adopt the necessary state law (Arizona, New York, Tennessee). However, many others have failed to move forward to enact the EB reform, including Alabama, Colorado, Delaware, Florida, Missouri, and Mississippi.

If these states fail to do so, nearly 300,000 workers will be left struggling without benefits despite the generous federal funding provisions of the ARRA (Table 2). In addition, Indiana (unemployment rate of 10 percent) and South Carolina (unemployment rate of 11.4 percent) should be singled out for failing to adopt the optional state law allowing their workers to collect 20 weeks of EB benefits, not just the current 13 weeks.

The immediate challenge is to ensure that all those who should qualify for EB are able to collect their maximize EB benefits before thousands more families lose their homes and end up destitute through no fault of their own. Before the end of the year, Congress should take a serious look at the EB program and the many extreme restrictions that nearly gutted the program in the 1980s. When time comes for Congress and the Obama Administration to revisit the EUC and EB extensions later this year, unemployment will surely be higher than it is today. Thus, more assistance may well be needed to help struggling families cope with the devastating unemployment crisis.

3. <u>The ARRA Significantly Increases the Purchasing Power of Jobless Benefits</u>

Finally, the ARRA provided the nation's unemployed families with relief against the limited purchasing power of unemployment benefits by increasing the weekly benefits by $25 and suspending the federal tax on benefits (up to the first $2,400). These significant reforms go a long way to help workers make ends meet as they struggle to pay the bills and navigate the high cost of living for most basic goods and services.

While most experts have called for unemployment benefits to replace at least 50 percent of each worker's lost earnings,[20] benefits now average $300 a week, thus replacing only 34.8 percent of the average worker's weekly wage. In a dozen states, workers have to get by on an average of less than $250 a week, often because their states do not index the benefits to reflect the cost of living. The ARRA's increase in benefits represents an extra $100 a month, or an 8-percent increase in the purchasing power of the average worker's benefits.

NELP estimates (Table 3) that nearly 20 million workers will receive the increase in benefits provided by the ARRA, which separately takes into account those workers collecting regular state benefits in 2009 and those receiving either EUC or EB. The added $25 in weekly benefits also gives a major boost those communities hardest hit by unemployment, totaling

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[20] Advisory Council on Unemployment Compensation, *Collected Findings and Recommendations: 1994-1996,* Recommendation 1995-7.

about $8.6 billion (Table 3) in 2009 not counting the multiplier effect when the benefits start circulating in the economy.

The ARRA's provision suspending the federal tax on the first $2400 of unemployment benefits was also welcome news to about 10 million families who can now stretch out their finances rather than face the prospect of paying federal taxes after taking a big hit to their income. The misguided decision to fully tax unemployment benefits came in 1987, during the same period when Congress and the Reagan Administration slashed nation's unemployment insurance safety net, including Extended Benefits and Disaster Unemployment Assistance programs.

Before the end of the year, Congress and the Obama Administration should seriously consider proposals to further increase the purchasing power of state and federal jobless benefits and permanently phase-out the federal tax on jobless benefits.

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Chairman McDermott, thank you again for this opportunity to testify to the impact of the historic unemployment insurance reforms made possible by the ARRA. These are the toughest of times for unemployed workers and their families. However, with your inspiring dedication to their plight, and the continued support of President Obama and the leaders of the House and Senate, these families can now be assured that their voices will be heard in the halls of Congress and that the unemployment system will be better prepared to meet the challenges of the 21st Century.

Table 1: Status of State Legislation Implementing the ARRA's Unemployment Insurance Incentive Reforms

April 21, 2009

State	Legislation Enacted/Passed Legislature	Legislation Passed One Chamber or Legislative Committee	Legislation Introduced	Proposals Under Development
Alabama		**X** (Senate Committee)		
Alaska	**X** (Passed Legislature)			
Arizona			**X**	
Arkansas	**X** (Enacted)			
California	**X** (Enacted)			
Colorado		**X (**Senate Committee)		
Connecticut	**X** (Enacted)			
Delaware				**X**
District of Columbia				**X**
Florida		**X** (Senate Committee)		
Georgia	**X** (Passed Legislature)			
Hawaii		**X** (In Conference)		
Idaho		**X** (Passedl House)		
Illinois				**X**
Indiana				
Iowa	**X** (Enacted)			
Kansas		**X** (Passed House)		
Kentucky				**X** (Commission)
Louisiana				**X**
Maine	**X** (Enacted)			
Maryland				
Massachusetts				**X**
Michigan			**X**	
Minnesota	**X** (Enacted)			
Mississippi				**X**
Missouri				
Montana			**X**	
Nebraska				**X**
Nevada	**X** (Enacted)			
New Hampshire		**X** (Passed House)		
New Jersey	**X** (Enacted)			
New Mexico				**X**
New York			**X**	
North Carolina				**X**
North Dakota				**X**
Ohio				**X**
Oklahoma		**X** (House Committee)		
Oregon	**X** (Enacted)			
Pennsylvania				**X**
Rhode Island				**X**
South Carolina			**X**	
South Dakota	**X** (Enacted)			
Tennessee			**X**	
Texas		**X** (Passed Senate)		
Utah			**X** (Commission)	
Vermont				**X**
Virginia			**X** (House Disapproved)	
Washington			**X**	
West Virginia	**X** (Enacted)			
Wisconsin				**X**
Wyoming				
Totals	*13*	*9*	*9*	*16*

Table 2: Estimated Numbers Exhausting Federal Emergency Unemployment Compensation (EUC) & Eligible to Receive Extra 13-20 Weeks of Extended Benefits (EB)

April 21, 2009

State	Workers Exhausting EUC (January - December 2009)	Workers Eligible to Receive EB	Additional Workers Eligible to Receive 13 Weeks of EB with Optional State Law	Additional Workers Eligible to Receive 20 Weeks of EB with Optional State Law
Alabama	26,111		26,111	
Alaska	10,062	10,062		
Arizona	34,239		34,239	
Arkansas	20,237	20,237		
California	381,472	381,472		
Colorado	22,344		22,344	
Connecticut	33,759	33,759		
Delaware	5,198		5,198	
District of Columbia	6,106	6,106		
Florida	187,550			187,550
Georgia*	90,934	90,934		
Hawaii	9,709			
Idaho	12,206	12,206		
Illinois	105,500	60,725		
Indiana	67,601	67,601		67,601
Iowa	15,550			
Kansas	23,331			
Kentucky	22,157	22,157		
Louisiana	26,174			
Maine	7,211	7,211		
Maryland	23,552			
Massachusetts	60,598	60,598		
Michigan	127,609	127,609		
Minnesota	40,352	40,352		
Mississippi	16,490			16,490
Missouri	34,479		34,479	
Montana	5,913	5,913		
Nebraska	12,953			
Nevada	32,750	32,750		
New Hampshire	6,168			
New Jersey	116,018	116,018		
New Mexico	13,874			
New York	141,053		141,053	
North Carolina	104,422	104,422		
North Dakota	4,964			
Ohio	96,790	96,790		
Oklahoma	16,699			
Oregon	37,547	37,547		
Pennsylvania	125,150	125,150		
Rhode Island	12,882	12,882		
South Carolina	48,251	48,251		48,251
South Dakota	1,167			
Tennessee	47,427			47,427
Texas	80,463			
Utah	15,533			
Vermont	3,681	3,681		
Virginia	47,218			
Washington	40,171	40,171		
West Virginia	5,355			
Wisconsin	60,365	60,365		
Wyoming	2,625			
United States	*2,489,969*	*1,624,968*	*263,423*	*367,319*

Table 3: State Impact of the ARRA's $25 Weekly Benefit Increase

April 21, 2009

State	Total Recipients of State & Federal Benefits Collecting $25 Increase (2009)	Total Added Jobless Benefits
Alabama	243,697	$88,031,139
Alaska	84,660	$35,569,397
Arizona	236,890	$108,457,218
Arkansas	213,838	$84,364,939
California	2,775,823	$1,349,730,589
Colorado	184,294	$79,032,068
Connecticut	302,795	$130,186,350
Delaware	52,038	$24,260,431
District of Columbia	44,884	$25,823,996
Florida	941,057	$420,110,597
Georgia	651,409	$262,475,447
Hawaii	56,949	$19,927,404
Idaho	120,326	$46,736,395
Illinois	930,930	$416,646,029
Indiana	533,722	$217,620,392
Iowa	193,208	$69,163,515
Kansas	120,954	$46,358,514
Kentucky	257,849	$102,343,130
Louisiana	131,465	$46,702,627
Maine	71,585	$30,528,658
Maryland	243,266	$106,545,093
Massachusetts	553,729	$252,146,499
Michigan	1,129,741	$488,217,839
Minnesota	360,308	$161,559,847
Mississippi	133,010	$51,628,647
Missouri	291,161	$121,774,625
Montana	55,942	$46,871,577
Nebraska	71,005	$22,499,008
Nevada	251,350	$109,037,587
New Hampshire	59,124	$19,994,794
New Jersey	842,423	$383,606,290
New Mexico	72,217	$28,952,803
New York	1,109,969	$493,260,967
North Carolina	766,773	$339,811,639
North Dakota	26,189	$7,820,753
Ohio	779,116	$328,397,568
Oklahoma	106,125	$37,630,103
Oregon	373,416	$160,372,620
Pennsylvania	1,167,153	$504,711,370
Puerto Rico	0	$108,716,172
Rhode Island	101,600	$46,591,113
South Carolina	356,569	$142,055,100
South Dakota	16,251	$4,379,506
Tennessee	375,387	$155,799,595
Texas	740,242	$318,121,209
Utah	75,694	$27,253,970
Vermont	52,184	$20,945,339
Virgin Islands	4,961	$2,363,757
Virginia	266,944	$88,260,594
Washington	437,009	$165,742,098
West Virginia	87,470	$33,231,844
Wisconsin	639,765	$244,097,461
Wyoming	22,851	$8,037,962
United States	*19,717,317*	*$8,634,504,181*